



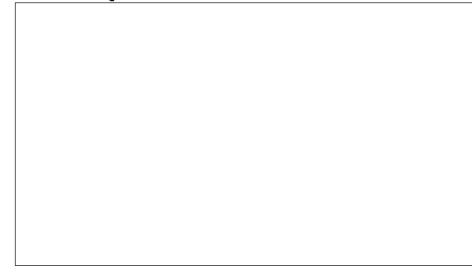
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USSR: Andropov Not Weakened by Absence

General Secretary Andropov, expressing regret to the party Central Committee plenum yesterday that "temporary causes" prevented him from attending, sent a speech he had prepared to give and won plenum approval of promotions to the Politburo that suggest his political strength continues despite his physical infirmity. []

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The plenum approved the promotions of two of Andropov's supporters whose careers had stalled under Brezhnev—the premier of the Russian Soviet Federative Socialist Republic, Vitaliy Vorotnikov, 57, and party Control Committee chairman Mikhail Solomentsev, 70—from candidate members to full members of the Politburo. []

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Two others who have gained prominence under Andropov were also advanced. KGB chairman Viktor Chebrikov, 60, was elevated to candidate membership of the Politburo, and the Central Committee's party personnel department chief, Yegor Ligachev, 63, was made a member of the Secretariat. []

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Comment: The personnel changes are an impressive display of Andropov's political strength. Vorotnikov has had a meteoric rise since last year. Clearly an Andropov protege, he led an anticorruption campaign in Krasnodar Kray before assuming his present post last June. []

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Solomentsev is an independent-minded leader whom Andropov probably sees as a useful ally in his post of chief party disciplinarian. Chebrikov was Andropov's deputy in the KGB, and Ligachev has been managing party personnel appointments for Andropov since last spring. []

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These changes represent a clear-cut political victory for Andropov. Despite his illness he has strengthened his position within the Politburo—tipping the balance in his favor—and the Secretariat. []

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Andropov's physical inability to appear at the plenum is unprecedented and is generating continued political uncertainty. His success, however, indicates that he is fully in charge of party business. The momentum he has achieved at this plenum should help him overcome foot-dragging within the middle levels of the bureaucracy. []

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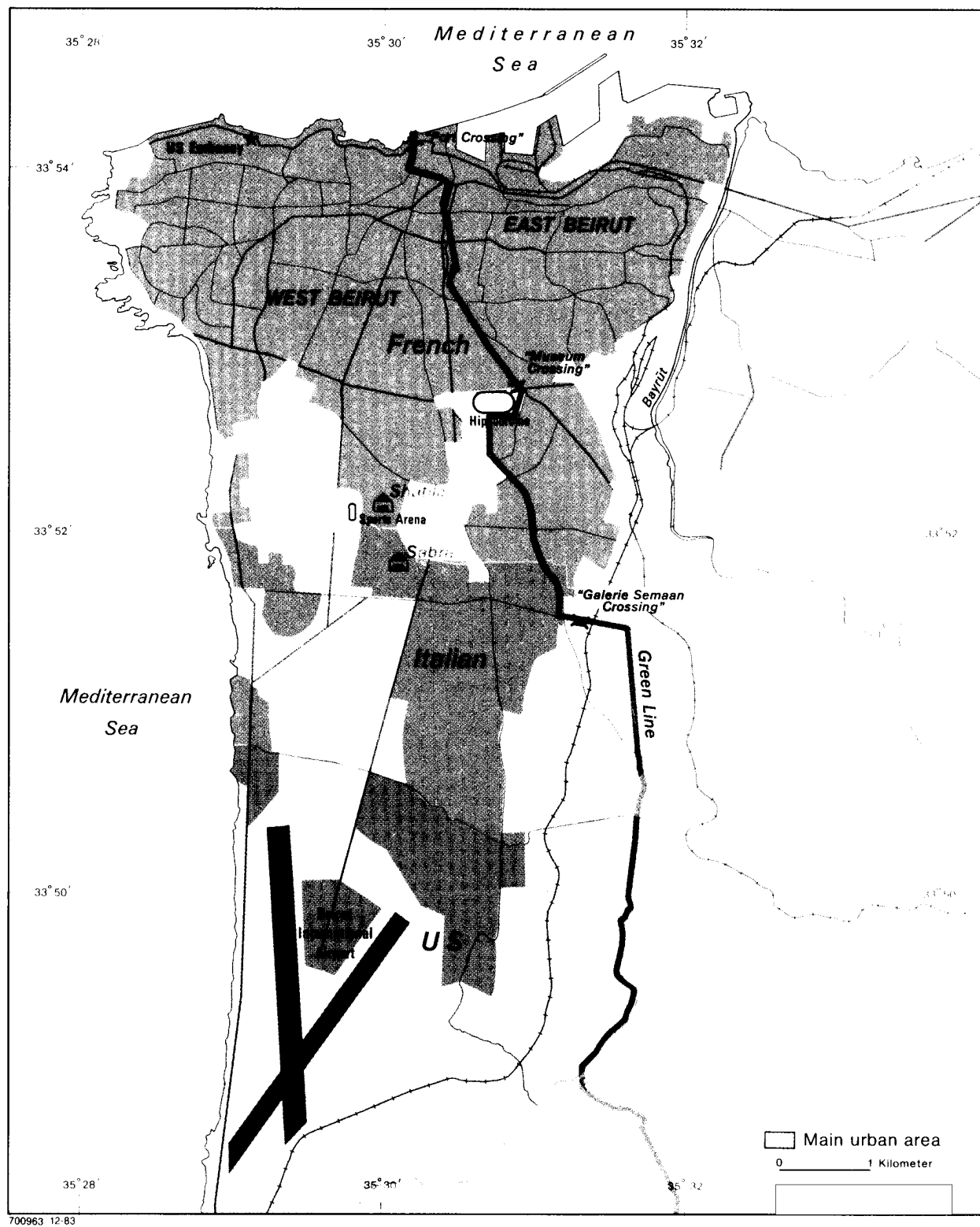
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LEBANON: French Pullback Incites Fighting

The outbreak of fighting between the Lebanese Army and Shia militiamen in West Beirut, brought on by the abandonment of several checkpoints by the French Multinational Force contingent on Saturday, indicates the willingness of both the Shias and the Army to fight for control over positions left vacant by Western forces. [redacted]

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[redacted] the struggle that followed the French redeployment provided the excuse for a long-planned Army sweep of the nearby Sabra and Shatila refugee camps, which had been a focal point for antigovernment activity. The Army reportedly has gained control of the camps and may have captured as many as 300 Lebanese prisoners—plus 15 Iranians and 100 Syrians and Palestinians. [redacted]

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According to the US Embassy, Shia Amal leader Nabih Barri expects a major Army assault against the southern suburbs in the near future and therefore might launch a preemptive attack. [redacted]

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Comment: [redacted] to preserve its credibility, the Army must seize control of any positions abandoned by Multinational Force contingents. Shia Amal militiamen, on the other hand, view partial withdrawals by the Western forces as opportunities to expand the Shias' area of control in Beirut. [redacted]

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The proposed drawdown of Italian forces—which occupy the predominantly Shia areas south of Sabra and Shatila—therefore is sure to start new battles between the Army and the Shias. [redacted]

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President Gemayel, encouraged by the success of the Army sweep, may be tempted to respond to further Amal attacks by sending the Army into Shia neighborhoods in southern Beirut. Any move southward, however, will meet strong resistance by Shia fighters. Moreover, Druze and Palestinian artillery support to the Shias raises the likelihood that more fighting in southern Beirut will spread beyond the capital. [redacted]

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Japan: The New Government

Key Cabinet Ministers

Deputy Prime Minister and Economic Planning Agency Director General	Toshio Komoto
Foreign Minister	Shintaro Abe ^a
International Trade and Industry Minister	Hikosaburo Okonogi
Finance Minister	Noboru Takeshita ^a
Defense Agency Director General	Yuko Kurihara
Chief Cabinet Secretary	Takao Fujinami
Home Affairs Minister	Seiichi Tagawa ^b

^a Holdover from previous Cabinet.^b Chairman of New Liberal Club.

Top Party Officials

Secretary General	Rokusuke Tanaka
Executive Council Chairman	Shin Kanemaru
Policy Affairs Research Council Chairman	Masayuki Fujio

Distribution of Key Cabinet and Party Posts Among LDP Factions

Number of posts

Dominant Coalition

Nakasone	3
Tanaka	7
Suzuki	5
Total	15

Rival Coalition

Fukuda	5
Komoto	2
Total	7

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JAPAN: New Cabinet Formed

Nakasone's reelection as prime minister yesterday followed his temporarily placating his rivals in the ruling Liberal Democratic Party and recruiting the opposition New Liberal Club as a partner in a coalition government. []

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Nakasone set the stage for the restoration of intraparty stability on Saturday by making the ritual acceptance of responsibility for last week's election setback. He also pledged to "eradicate" former Prime Minister Tanaka's influence over the party and supported creation of ethics committees in both houses of the Diet. []

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He followed up yesterday by installing one of his chief rivals, Toshio Komoto, in the new position of deputy prime minister and removing Tanaka's henchmen from key posts as chief cabinet secretary and party secretary general. In addition, he distributed party and cabinet positions more evenly among the factions. []

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The coalition with the small New Liberal Club is the first that the ruling party has been forced to form since its creation in 1955. The New Liberal Club, which left the Liberal Democrats in 1976 in protest against Tanaka's alleged corruption of the party, received one cabinet post in return for its support. []

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According to the US Embassy, the new government at present commands 267 seats in the 511-member lower house. This is enough to give it control of 15 of 18 standing committees, including the key Budget Committee. []

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Comment: The Prime Minister's adroit maneuvering has gained him some breathing space and has marginally strengthened his position but does not free him to take politically risky initiatives on trade and defense. Moreover, notwithstanding his promise to "cleanse" the party, he remains dependent on Tanaka's support.

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NETHERLANDS-US: Unitary Tax Backlash

The Dutch have linked agreement on the new bilateral tax treaty with the US—which includes provisions to prevent double taxation—to achieving a solution to the problem of unitary taxes imposed by some states in the US. []

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The Hague objects to the way some states are using the principle of unitary taxation to tax a percentage of the global profits of a multinational firm rather than the earnings of its subsidiary company based within the state's borders. This method imposes large administrative costs. If jurisdictions use different bases for taxation, it also could lead to a tax on more than 100 percent of a firm's income.

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Western Europe's largest multinational corporations have banded together to urge the US Government to restrict the taxation powers of the states. Some companies have halted investment and threatened to cancel future projects in states levying unitary taxes. []

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Comment: The Dutch probably are not using this issue strictly as a bargaining tool in the current treaty negotiations. They appear seriously concerned that widespread use of unitary taxation could discourage investment and become another obstacle to resuming economic growth in the Netherlands and elsewhere. []

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The Netherlands, Japan, and the UK, among others, are coming under increasing pressure at home and from multinational corporations to take costly retaliatory actions against US companies abroad. Many Europeans apparently believe that swift action is essential to dissuade other countries from adopting what they view as a potentially crippling taxation scheme. []

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Major trading partners of the US probably will hesitate, however, to sanction any measures that violate current treaties. Multinational firms will at least be reluctant to make additional investments in unitary taxation states. []

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Special Analysis

WESTERN EUROPE: Welfare and Defense Spending

Welfare programs in Western Europe are in crisis. Demands for state services and payments are rising rapidly, while revenues are failing to keep up. In order to limit budget deficits, West European governments are cutting social programs, and this is adding to the public pressure in NATO countries to reduce military spending. Defense accounts for a smaller proportion of those national budgets, but most West Europeans prefer to cut military programs rather than welfare as a means of controlling spending. The NATO governments are sensitive to these feelings, and growth in Allied defense spending has declined to its lowest rate in years. This has already resulted in delayed procurement programs and reductions in training and operations.

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The costs of social programs have soared in recent years. According to the EC, social insurance and public assistance on the average now consume almost 30 percent of the gross domestic product in the EC countries, as compared with 19 percent in 1970. Defense spending, in contrast, has retained a fairly consistent share of GDP, remaining below 4 percent.

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Slow economic growth and high unemployment have held down tax revenues, while at the same time forcing higher social spending. The recession has reduced the growth of revenues from business and personal taxes, as well as contributions from employers and employees to social security. High jobless rates mean both lower tax revenues and rapidly increasing unemployment compensation.

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The strain on social welfare budgets is likely to continue. Western Europe's high jobless rates probably will increase still further in the next few years. Declining rates of capital formation, slow progress in developing high-technology industries, and high labor costs are hampering job creation. Most economists expect the current upturn in Western Europe to be limited, which will curtail job creation and growth in government tax revenues.

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Efforts at Austerity

Conservative and Christian Democratic-led governments in the UK, West Germany, Belgium, the Netherlands, and Denmark are trimming welfare benefits. They are questioning the principle of universal coverage, introducing income tests and user fees for a variety of social services, and disconnecting the rates for some benefit payments from the cost of living.

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Most of these governments have been able so far to cut social expenditures while slightly increasing real military spending. Except in Denmark, the governing coalitions enjoy solid parliamentary majorities. Socialist opposition parties are trying to exploit public hostility to welfare cutbacks, but they have offered no clear alternatives for reducing budget deficits. []

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Although the Socialist-led government in France also is trying to hold down welfare spending, the thrust of its economic program has been on raising taxes. In Italy, all five coalition parties have endorsed austerity in principle. Many of their deputies in parliament, however, are objecting to specific welfare cutbacks. []

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Political Constraints

Public resistance limits the ability of governments to make more reductions in social programs, especially in the absence of even deeper cuts in defense. Recent opinion surveys throughout Western Europe confirm strong public support for welfare benefits and the sentiment that military budgets are too high. []

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In most countries, tax increases are even more unpopular than social spending cuts, and some polls show resentment against big spending by the government. In all of Western Europe, however, public majorities prefer military spending cuts to higher taxes, state borrowing, and welfare restrictions. []

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Most NATO governments are likely to rely on a mixture of savings measures and tax increases. Social programs consume a large proportion of public budgets, and austerity cutbacks that were limited to other areas would not be enough to solve the governments' fiscal problems. Economically necessary welfare cutbacks, however, could weaken northern Europe's fiscally conservative governments politically, particularly while high unemployment and sluggish economic growth are problems. []

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Pressures on Military Spending

The need to trim public spending is likely to prevent significant military spending increases in most West European countries. Because their populations consider defense costs too high already, governments will be reluctant to promote defense increases while cutting back in other areas. []

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This year only the UK, Luxembourg, and Norway, and possibly the Netherlands, will come close to meeting NATO's target of a 3-percent increase in real military spending. Defense budgets will grow little in

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most other countries, and in some they may actually decline in real terms. []

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As a result of high inflation in the defense sector, particularly the growing cost of modern weapons, the slow growth in military spending probably will be insufficient to maintain current force levels and fund planned modernization programs. Failure to increase military budgets could force significant cutbacks in West European military readiness, personnel reductions, shortened training periods, delays in weapon procurement, and even cancellation of purchases of some new weapons. []

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